

BANK INDONESIA

No. 10/48/DPD

Jakarta, 24 December 2008

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS OF FOREIGN EXCHANGE  
IN INDONESIA

Concerning: Transaction of Foreign Exchange Against Rupiah

Referring to the determination of Bank Indonesia Regulation Number 10/37/PBI/2008 concerning Transaction of Foreign Exchange Against Rupiah (State Gazette the Republic of Indonesia of 2008 Number 198, Supplement to State Gazette of the Rpubli of Indonesia Number 4945), it is deemed necessary to determine the implementation regulation on Transaction of Foreign Exchange Against Rupiah in a Circular Letter of Bank Indonesia as follows:

1. Transaction of Foreign Exchange Against\_Rupiah and/or against other foreign currencies for its own interest or for the interest of the Customer based on a contract as referred to in Bank Indonesia Regulation Number 10/37/PBI/2008 concerning Transaction of Foreign Exchange Against Rupiah, hereinafter referred to as PBI, Article 2 paragraph (1) is regulated as follows:
  - a. Transaction of Foreign Exchange Against Rupiah and/or against other foreign currencies for its own interest is when Bank is playing a role as counterparty in the transaction with Customer, where Bank and Customer are at equal position.

Example:

Bank A is making spot transaction USD/IDR for the sum of USD 1,000,000 (one million UD Dollars) with Customer X. In this case, the position of Bank A is as the counterparty of Customer X,

- b. Transaction of Foreign Exchange Against Rupiah and/or against other foreign currencies for the interest of Customer is when Bank is transacting on behalf of Customer, where Bank is acting as the party representing the Customer's interest.

Example:

Customer A is asking to Bank B to represent Customer A to make transaction with Bank X, Ltd overseas. In this case, the transaction occurred is between Customer A with Bank X, Ltd where the position of Bank B only as broker.

- c. The contract related with Transaction of Foreign Exchange Against Rupiah and/or against other foreign exchanges performed by Bank for its own interest at least to contain:
  - 1) contract number;
  - 2) date of transaction and date of exchange;
  - 3) value of transaction nominal;
  - 4) name of counterparty;
  - 5) denomination; and
  - 6) account of correspondence bank.
- d. Contract related to Transaction of Foreign Exchange Against Rupiah and/or against other foreign exchange performed by Bank for the interest of the Customer at least to contain:
  - 1) contract number;
  - 2) rights and obligations of both parties (Bank and Customer) in the event Bank is conferred with power to represent Bank;
  - 3) date of transaction and date of exchange;

- 4) value of transaction nominal;
  - 5) ceiling of Transaction of Foreign Exchange against Rupiah;
  - 6) type of exchange to be sold/bought;
  - 7) type of transaction used;
  - 8) amount of commission; and
  - 9) account of correspondence bank
2. Internal guidance I performing Transaction of Foreign Exchange against Rupiah as referred to in PBI Article 2 paragraph (2) at least to cover:
- a. decision on authorization and responsibility for implementation of Transaction of Foreign Exchange against Rupiah;
  - b. mechanism on settlement of Transaction of Foreign Exchange against Rupiah in accordance with PBI;
  - c. documents administration related to Transaction of Foreign Exchange against Rupiah; and
  - d. completeness of procedures assure Bank adherence to stipulations of prevailing legislation related to implementation of Transaction of Foreign Exchange against Rupiah; and
  - e. other matters to be stated in internal guidance related to regulation on obligations and prohibitions as referred to in PBI.
3. Example of obligation on using price quotation of foreign exchange against rupiah determined by Bank as referred to in PBI Article 3 as follows:
- Bank A is performing USD/IDR spot transaction with Customer B which is not a Ban. In this case, Bank A is obliged to use USD/IDR price quotation determined by Bank A, and not originated from Customer B.
4. Obligation for finalizing Transaction of Foreign Exchange against Rupiah by transferring principal fund in full as referred to in BI Article 4 paragraph (1) is regulated as follows:

- a. transfer of principal fund in full is to be performed in real o principal value of selling transaction and/or buying transaction respectively agreed at te beginning of said transaction.
- b. transfer of said principal fund is obliged to be supported by the availability of sufficient real fund to finance said transaction (good fund), and not based on the recording aspect in bookkeeping (accountancy).
- c. said principal fund is obliged o be used for settlement process of Transaction of Foreign Exchange against Rupiah on date of exchange, and is recorded in Bank treasury system, which may be proved from the order of settlement time.
- d. transfer of real fund partial delivery is not permitted.

Example 1:

Customer A is performing spot buying transaction of USD against Rupiah with Bank B for the sum of USD 1,000,000 (one million US Dollar) in spot rate of USD/IDR Rp 11,000.00. On maturity, Customer A is obliged to transfer IDR fund through the movement of principal fnd in full for the sum of Rp 11,000,000,000.00 (eleven billion rupiah) in real on implementation of said transaction settlement, and is recorded in bank treasury system which may be proved based on the order of settlement time. Besides that, bank B is obliged to to perform transfer of USD fund through movement of principal fund in full USD 1,000,000 9one million US Dollar) in real on the implementation of said transaction settlement process, and is recorded in bank treasury system, which may be proved based on settlement time order.

Example 2:

PT X is performing option buying (put) of 1 month USD against Rupiah with Bank Y for the sum of USD 125,000 (one hundred and twenty five thousand US Dollar) on strike price of USD/IDR Rp 9,500.00. With the assumption of USD rate in the market on the date exchange reach the level of USD/IDR Rp ,300.00,

so said option contract is exercised. For that reason, n said exchange date PT X is obliged to make USD fund transfer through movement of principal fund in full for the sum of USD 125,000 (one hundred twenty five thousand USD) in real during the performance of settlement process of option transaction, an is also recorded in bank treasury system which may be proved based on the order of settlement time. On the other hand, Bank Y is obliged to make IDR fund transfer through movement of principal fund in full for the sum of Rp 1,187,500,000.00 (one billion one hundred and eighty seven million five hundred thousand rupiah) in real.

Example 3:

On 19 December 008, Customer V is performing forward selling transaction of USD/IDR of 1 month with Bank W for the sum of USD 500,000 (five hundred thousand US Dollar) with exchange date on 19 January 2009 at rate of Rp 11,000.00. On 12 January 2009, Customer V is performing buying forward transaction of SD/IDR for the sum of USD 500,000 (five hundred thousand US Dollar) on exchange date of 19 January 2009 at rate SD/IDR Rp 11,500.00. On exchange date of 19 January 2009, Bank W is making transaction settlements respectively, as follows:

- 1) For selling forward transaction on 19 December 2008, Customer V is obliged to transfer foreign exchange fund to Bank W for the sum of USD 500,000 (five hundred US Dollar) in real, and
- 2) For uying forward transaction on 12 January 2009, Customer V is obliged to transfer rupiah fund to Bank W for the sum of Rp 5,750,000,000.00 (five billon seven hundred and fifty million rupiah) in real.

Both transaction stated above are not permitted to be finalized with netting method.

5. Exception on settlement obligation of Transaction of Foreign Exchange Against Rupiah with transfer of principal fund in full as referred to in PBI Article 4 paragraph (2) is obliged to be supported with the following documents:
- a. Document of Transaction of Foreign Exchange Against Rupiah performed by Bank and/or Customer experiencing force majeure at least to include:
    - 1) contract of outstanding Transaction of Foreign Exchange Against Rupiah and
    - 2) written documents issued by the authorities, stating that said force majeure is experienced by transacting Bank and/or Customer.Said documents are remain valid if the Transaction of Foreign Exchange Against Rupiah is to be extended.
  - b. Documents for the extension of Transaction of Foreign Exchange Against Rupiah for the purpose of hedging on the Export/Import Activities experiencing force majeure are to include:
    - 1) extended contract of Transaction of Foreign Exchange Against Rupiah; and
    - 2) photocopy of letter of credit, invoice, Notice on Export of Goods (PEB), Notice on Import of Goods, copy of bill of lading, or documents of that kind.
  - c. Document on extension of Transaction of Foreign Exchange Against Rupiah for the purpose of hedging on business liquidity, paid up capital, retained earnings, and Bank sub-ordinate loan calculated in the obligation of Bank minimum capital fulfillment, at least to include:
    - 1) extended contract of Transaction of Foreign Exchange Against Rupiah and documents as evidence of capital paid up from head office;
    - 2) extended contract of Transaction of Foreign Exchange Against Rupiah and Bank financial report; or

- 3) extended contract of Transaction of Foreign Exchange Against Rupiah and agreement on Bank sub-ordinate loan;
- d. Document on extension of Transaction of Foreign Exchange Against Rupiah for the purpose of hedging on direct participation activities in real sector at least to include:
  - 1) extended contract of Transaction of Foreign Exchange Against Rupiah; and
  - 2) photocopy of direct participation evidence performed by head office or investor.
- e. Document on extension of Transaction of Foreign Exchange Against Rupiah for the purpose of hedging on foreign loan in foreign exchange at least to include:
  - 1) extended contract of Transaction of Foreign Exchange Against Rupiah; and
  - 2) photocopy of loan agreement and/or other relevant loan documents.
- f. Document on extension of Transaction of Foreign Exchange Against Rupiah for the purpose of hedging on Government Bond (SUN), stock and corporate bond at least to include:
  - 1) extended contract of Transaction of Foreign Exchange Against Rupiah and photocopy of SUN ownership document;
  - 2) extended contract of Transaction of Foreign Exchange Against Rupiah; and photocopy of stock ownership document; or
  - 3) extended contract of Transaction of Foreign Exchange Against Rupiah; and photocopy of corporate bond ownership document.
- 6. Exception to obligation of transferring principal fund in full as referred to in PBI Article 4 paragraph (2) including for earlier settlement of Transaction of Foreign Exchange Against Rupiah in the framework of Export/Import Activities due to export yield obtained earlier.

Duration of earlier settlement at the latest 2 (two) working days before due date of hedging transaction. Said transaction settlement is obliged to be supported by hedging transaction document and evidence for export yield obtained earlier.

Example:

On 22 December 2008 PTA performed a selling forward transaction USD/IDR of 1 month on exchange date of 22 January 2009 for the sum of USD 1,000,000 (one billion US Dollar) with underlying. Export/Import activities which proceeds shall be received on 22 January 2009. Due to a certain thing, export proceeds is received by PT A on 20 January 2009, so PT A is to speed up the above selling forward transaction settlement by performing USD/IDR swap transaction with maximal nominal value of USD 1,000,000 (one million US Dollar) and with the period of maximum 2 (two) working days before maturity of hedging transaction (swap tod/spot or swap tom/next) and said forward transaction of earlier selling may be finalized with movement of principal fund in full.

Nominal value rollover of Transaction of Foreign Exchange Against Rupiah as referred to in PBI Article 4 paragraph (2) letter b at the most is the same as underlying nominal value from said transaction.

8. Frequency and period in accordance with the condition faced as referred to in PBI Article 4 paragraph (2) letter b in accordance with underlying period stated in the document of evidence as referred to in point 5 of this Circular letter.

Example:

On 5 January 2009, PT A has performed goods exportation overseas using L/C (Letter of Credit) with export value totaling to USD 500,000 (five hundred thousand US Dollar). In order to perform hedging on said export yield, PT A was performing derivative transaction with Bank B through selling forward USD/IDR of 1 month with nominal value the same as the export yield stated in L/C (USD 500,000) and maturity date on 5 February 2009. On exchange date,



PT A was unable to transfer the foreign exchange fund as agreed due to delay in shipping (force majeure). The hedging transaction performed between PT and Bank B may be extended with nominal value in accordance with L/C i.e. at the most US 500,000 (five hundred thousand USDollar), and frequency as well as extension period in accordance with requirement to fulfill its transaction contract.

9. Transaction of Foreign Exchange Against Rupiah performed is related to structured product as referred to in PBI Article 5, it is regulated as follows:
  - a. Bank is prohibited to perform Transaction of Foreign Exchange Against Rupiah related to structured product whenever said transaction yield is invested in structured product, or on the other hand said structured product has caused Transaction of Foreign Exchange Against Rupiah.
  - b. Bank performing Transaction of Foreign Exchange Against Rupiah related to structured product before the effectiveness of PBI and the maturity is after the effectiveness of PBI may be continued until the maturity of said transaction, but is not permitted to be extended.
10. Prohibition for providing credit to Customer either in foreign exchange and/or rupiah as referred to in PBI Article 6 is regulated as follows:
  - a. prohibition for providing credit to Customer either in foreign exchange and/or rupiah as referred to in PBI Article 6, not only for credit provided by Bank in particular to finance the Customer derivative transaction activities of foreign exchange against rupiah, but also credit aimed to finance other activities already approved by Bank which then said credit is used by Customer to finance derivative transaction of foreign exchange against rupiah.
  - b. exception for this prohibition of credit provision as referred to in PBI Article 6 paragraph (2) is when the credit provided by Bank in the framework of Export/Import activities is used to perform derivative transaction of foreign

exchange against rupiah.for the purpose of hedging on said Export/Import activities.

c. the documents for the exception of this prohibition of credit provision as referred to in PBI Article 6 paragraph (3) are at least to include:

- 1) photocopy of loan agreement; and
- 2) photocopy of following documents L/C, invoice, PEB, PIB, Bill of adding (B/L), and/or other documents of its kind.

11. Prohibition to provide overdraft to Customer in the framework of Transaction of Foreign Exchange Against Rupiah as refered to in PBI Article 7 paragraph (1) is when Bank provides liquidity facility to finalize Transaction of Foreign Exchange Against Rupiah with Customer who hold an account or not holding any account in said Bank, but on maturity date of foreign exchange, either foreign echange fund or rupiah fund agreed can not be settled by Customer.

Example 1:

PT A holding a foreign exchange account and rupiah account in Bank C. On 19 December 2008, PT A performing selling forward transaction of USD/IDR of 1 month with Bank C for the amount of USD200,000 (two hundred thousand US Dollar) at the rate of USD/IDR Rp11,500.00. On maturity date (19 January 2009), the rupiah balance in PT A account with Bank C is insuffienct to inance in full said USD selling transaction, i.e. Rp 2,300,000,000.00 (two billion three hundred million rupiah). After a confirmation given to PT A that the IDR fund is to be transfered to Bak C before end of the day, bak C is to transfer USD fund through crediting the foreign exchange account of PT A for the sum of UD 200,000 (two hundred thousand USDollar). But the IDR fund expected to arrive before end of 19 January 2009 in rupiah account of PT A is not materializing. Therefore, Bank C has given an overdraft to PT A in the framework of Transaction of Foreign Exchange Against Rupiah.

Example 2:

PT X is not holding either a foreign exchange account or rupiah account in Bank Y. On 23 December 2008, PT X performing selling forward transaction of USD/IDR of 1 month with Bank Y for the amount of USD200,000 (two hundred thousand US Dollar) at the rate of USD/IDR Rp10,000.00 with maturity date on 23 January 2009). According to the information obtained by PT X, PT X is going to receive export yield on 23 January 2009 for the sum of USD2,000,000 (two million US Dollarr). Therefore Bank Y making a transfer in advance of IDR fund to PT X of Rp 20,000,000,000.00 (two billion rupiah), with the hope that at the end of foreign exchange date PT X shall transfer the fun of USD2,000,000 (two million US Dolar). But until the end of 23 January 2009, PT X does not meet its promise to transfer the fund of USD2,000,000 (two million US Dollar). Therefore, Bank Y has given an overdraft to PT X in the framework of Transaction of Foreign Exchange Against Rupiah.

12. The duration for administrating documents as referred to in PBI Article 8 is to be adjusted to the prevailing legislations on company documents.
13. Bank performing transaction termination as referred to in PBI Article 13 is regulated as follows:
  - a. termination of transaction as referred to in PBI Article 13 Paragraph (2) is valid for Transaction of Foreign Exchange Against Rupiah performing by Bank with Customer or Bank with Bank.
  - b. termination of transaction as referred to in PBI Article 13 Paragraph (2) may be performed when other termination mechanism taken by parties making transaction may not be agreed.
  - c. termination of transaction as referred to in PBI Article 13 Paragraph (2) is also valid for Transaction of Foreign Exchange Against Rupiah

related to structured product performed in the framework of Export/Import Activities.

- d. termination of transaction as referred to in PBI Article 13 Paragraph (2) may be performed with combination method between the regulation Article 13 paragraph (2) letter a, letter b, and/or letter c.
- e. transaction termination without movement of principal fund through early termination or unwind of Transaction of Foreign Exchange Against Rupiah as referred to in PB Article 13 paragraph (2) letter b, may be performed insofar as:
  - 1) termination is not performed with structured product transaction; and
  - 2) is obliged to be supported with documents at least to include the contract for early termination or unwind of Transaction of Foreign Exchange Against Rupiah.
- f. termination of transaction without movement of principal fund through restructuring of contract on Transaction of Foreign Exchange Against Rupiah is related in PBI Article 13 paragraph (2) letter b is regulated as follows:
  - 1) restructuring among others are to include restructuring related to nominal value, period, and other requirements.
  - 2) restructuring nominal value at the most is the same as the previous transaction nominal value structured.
  - 3) restructuring is not performed by using structured product transaction.
  - 4) restructuring may only be performed when supported with documents at the least to include restructuring contract on Transaction of Foreign Exchange Against Rupiah related to Export/Import Activities.

- g. Termination of transaction without movement of principal fund by using loan from Bank as referred to in PBI Article 13 paragraph (2) letter c, is regulated as follows:
- 1) loan provided to finalize transaction is provision of fund which is obliged to be valued its quality in accordance with prevailing stipulation concerning evaluating of **aktiva** quality of commercial bank and is calculated within the maximum limit of credit provision in accordance with prevailing stipulation concerning maximum limit on credit provision for commercial banks.
  - 2) loan provided to finalize transaction may be performed when supported by documents at least to include loan agreement document or other **receivables** which may be equally made as loan agreement.
  - 3) report on said loan provision is to be reported through Commercial bank Monthly Report (LBU) in the **entry** of “other receivable”.
- h. Document to finalize transaction performed by Bank with Non-Bank Customer as regulated in letter d, letter e, and letter f above mentioned, is also to be supported by:
- 1) documents of L/C, invoice, PEB, PIB or bill of lading, and
  - 2) document on written agreement between parties transacting.
- i. Document to finalize transaction performed by Bank with Bank except as regulated in letter d, letter e and letter f abovementioned, document may also include statement from Bank which contains information that Transaction of Foreign Exchange Against Rupiah performed is related with Export/import activities.

Stipulations stated in this Circular Letter is effective as of 24 December 2008.

For the public to be informed, it is ordered to promulgate this Circular Letter in the State Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,  
signed  
BUDI MULYA  
DEPUTY OF GOVERNOR